

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 NEA-09 IO-10 AID-05 CIAE-00

COME-00 EB-07 FRB-03 INR-07 NSAE-00 RSC-01 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-01 CEA-01 L-02 H-01 PA-01 USIA-06 PRS-01

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INFO AMEMBASSY RANGOON

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E.O. 11652: ADS, DECLAS 12/31/76

TAGS: EAID, EFIN, BM

SUBJECT: POSSIBLE ADB FINANCING OF OIL FIELD REHABILITATION
PROJECT IN BURMA

USADB

FOR NAC AGENCIES

REFS: A) MANILA 13316, B) RANGOON 3187

SUMMARY: BURMESE GOVT IS SEEKING FROM ADB FINANCING FOR
REHABILITATION OF DOMESTIC OIL PRODUCTION FACILITIES IN
AMOUNT RANGING FROM \$46 TO \$52 MILLION. ACCORDING TO
BANK, BURMESE PLACE PROJECT AT TOP OF PRIORITY LIST
AND CLAIM FINANCING FROM OTHER SOURCES NOT AVAILABLE.
HENCE COMPELLED TO PURSUE FINANCING WITH ADB. BANK
HAS INDICATED TO BURMESE THAT IT HAS NOT PREVIOUSLY
FINANCED SIMILAR PROJECT BUT HAS, NONETHELESS, SENT
FACT-FINDING MISSION TO BURMA TO REVIEW ALL DIMENSIONS
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OF PROJECT. AT THIS POINT, ADB WOULD LIKE INITIAL

U.S. REACTON TO PROPOSED PROJECT BEFORE PROCEEDING FURTHER.

1. BURMA REQUESTED BANK AS EARLY AS JULY 1973 TO CONSIDER FIANCING DOMESTIC OIL PRODUCTION REHABILITATION PROJECT CONSISTING OF (A) REPLACEMENT DRILLING RIGS, SERVICING UNITS, OIL PUMPING FACILITIES, MEASURING INSTRUMENTS, WELL HEAD CONTROL EQUIPMENT, AND RIG SUPPORTING FACILITIES; (B) MACHINE TOOLS FOR OIL PRODUCTION WORK SHOP CURRENTLY UNDER PRODUCTION; (C) INSTALLATION OF CRUDE OIL PIPELINE FROM YENANGYAUNG OIL FIELD TO CHAUK OIL REFINERY; AND (D) INSTALLATION OF GAS CONSERVATION FACILITIES IN MANN OIL FIELD. COST OF FOREIGN EXCHANGE PORTION OF PROJECT ESTIMATED TO RANGE FROM \$46 TO \$52 MILLION.

2. BANK MAINTAINED AT OUTSET OF BURMESE INQUIRY IN JULY 1973 THAT THERE WERE DIFFICULTIES RE BANK FINANCING OF SUCH A PROJECT IN VIEW OF FACT THAT BANK HAD NO PREVIOUS EXPERIENCE IN THIS AREA AND THAT IN GENERAL BANK WOULD EXPECT BORROWING COUNTRY TO RELY UPON ALTERNATIVE SOURCES IF FINCANCING, E.G., SUPPLIERS CREDIT, FOR PROJECT OF THIS NATURE. BURMESE INITIAL RESPONSE WAS THAT THEY WERE RELUCTANT TO INCUR INDEBETEDNESS TO EITHER SUPPLIERS DIRECTLY OR INDIRECTLY THROUGH EXPORT FINANCING AGENCIES OF SUPPLYING COUNTRIES BURMESE STATED THAT ATTEMPTS WERE MADE TO OBTAIN CREDIT FROM OTHER SOURCES BUT UNSUCCESSFUL TO DATE AND AGAIN REQUESTED BANK FINANCING ADVANCING ARGUMENT THAT PRICE OF PROJECT COULD BE HELD TO MINIMUM IF BANK PROJIDED FINANCING SINCE EQUIPMENT WOULD THEN BE SUPPLIED ON BASIS OF INTERNATIONAL COMPETITIVE BIDDING.

3. PROJECT ITSELF IS FOR REHABILITATION OF ONSHORE OIL PRODUCTION FACILTIES. BURMA CAREFUL TO DISTINGUISH BETWEEN EXPLORATION ACTIVITY CURRENTLY IN EFFECT OFF-SHORE AND PROJECT IN QUESTION. BURMESE MAINTAIN, AND THE BANK FACT-FINDING MISSION AGREES, THAT IF PROJECT IMPLEMENTED, BURMA WOULD BE ABLE TO PRODUCE DOMESTICALLY ALL OF ITS PETROLEUM NEEDS THEREBY PHASING OUT CURRENT LIMITED OFFICIAL USE

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1.7 MILLION BARREL ANNUAL IMPORTATION OF PETROLEUM PRODUCTS.

4. FACT-FINDING MISSION RECENTLY RETURNED FROM BURMA AND ON BASIS OF REVIEW AND ANALYSIS OF PROJECT FINDS PROJECT ECONOMICALLY AND FINANCIALLY VIABLE WITH ECONOMIC RATE OF RETURN PROJECTED AT 30 PERCENT. AT THIS POINT, BANK UNWILLING TO PROCEED FURHTER LARGELY

BECAUSE USADB HAS RAISED QUESTIONS ON SEVERAL OCCASIONS IN THE PAST WITH REFERENCE TO POSSIBLE ALTERNATIVE SOURCES OF FINANCING FOR PROJECT SINCE NATURE OF PROJECT SEEMS TO LEND ITSELF TO MORE TRADITIONAL MEANS OF FINANCING. APPARENTLY BANK BELIEVES THAT SOME ALTERNATIVE SOURCES MIGHT BE AVAILABLE BUT ADB ALSO APPRECIATES BURMESE DESIRE TO IMPLEMENT PROJECT AT LEAST POSSIBLE COST, PROSPECTS FOR WHICH SEEM MAXIMIZED BY RESORT TO ADB FINANCING AND HENCE USE OF INTERNATIONAL COMPETITIVE BIDDING RE EQUIPMENT SUPPLY RATHER THAN NEGOTIATING CONTRACTS BILATERALLY. FYI: U.S. CONSULTANT, WHO ACCOMPANIED BANK FACT-FINDING MISSION, INDICATED THAT SUPPLIERS CREDIT PROBABLY AVAILABLE FOR VARIOUS PIECES OF PROPOSED PROJECT. PROBLEM, IN HIS ESTIMATION, WAS FACT THAT SUFFICIENT ALTERNATIVE SOURCES OF FUNDS NOT AVAILABLE TO FINANCE ALL ASPECTS PROJECT AS COMPLETE PACKAGE. CONSEQUENTLY, HE FELT THAT ADB INVOLVEMENT WOULD PROVIDE COHESION AS WELL AS ASSURE FINANCING FOR ALL PORTIONS OF PROJECT, THEREBY ASSURING ADEQUATE COORDINATION AND MINIMUM COST. END FYI. IN ADDITION, BANK INCLINED TO BELIEVE THAT BURMESE HESITANT TO SERIOUSLY APPROACH OUTSIDE SUPPLIERS REGARDING PROJECT BECAUSE OF RESERVATIONS ABOUT OWN ABILITY TO OBTAIN EQUIPMENT AND FINANCIAL TERMS ON ACCEPTABLE BASIS, I.E., BANK FEELS THE BURMESE WISH ADB TO ACT AS BROKER IN RPOCESS OF PUTTING PROJECT TOGETHER AND BY SO DOING PROTECT BURMESE INTERESTS.

5. USADB AND BANK MANAGEMENT RECENTLY DISCUSSED PROSPECTS OF POOL FINANCING FOR PROJECTS ALONG LINES THAT BURMESE WOULD ACCEPT SUPPLIERS CREDIT WHERE FEASIBLE TO FINANCE CONTRACT AWARDS DETERMINED ON BASIS OF INTERNATIONAL COMPETITIVE BIDDING. BANK REFERS IN THIS INSTANCE TO LIMITED OFFICIAL USE

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SIMILAR CASE WITH MINDANAO POWER PROJECT IN WHICH COST OVERRUN BEING FINANCED BY JAPANESE EXPORT-IMPORT CREDIT SINCE JAPANESE SUPPLIERS HAD WON LARGE PORTION OF CONTRACT AWARDS. IF SUCH A PROCEDURE WERE POSSIBLE, BANK WOULD ANTICIPATE THAT ALTERNATIVE SOURCES OF FINANCING MIGHT REDUCE BANK FINANCIAL COMMITMENT IN PROJECT FROM \$46-52 MILLION REANGE TO ROUGHLY HALF THAT AMOUNT. BANK PREPARED TO APPROACH BURMESE REGARDING PROJECT ON THIS BASIS.

6. USADB BELIEVES REASONS FOR BURMESE APPROACH TO ADB RE FINANCING PRAGMATIC, I.E. DESIRE TO MINIMIZE COST AS WELL AS BENEFIT FROM ADB EXPERIENCE, GUIDANCE AND ABILITY TO PROJECT BURMESE INTEREST IN ALL ASPECTS OF PROJECT IMPLEMENTATION, EVEN THOUGH PROPOSAL OBVIOUS

DEPARTURE FROM CUSTOMARY ADB ACTIVITY. WOULD APPRECIATE
REACTION SOONEST TO PROPOSED PROJECT.
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